

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 AGRE-00 INT-05 L-03 DOE-11 DOEE-00 SOE-02
NRC-07 OES-07 PM-05 ACDA-12 IO-14 SSO-00 CEQ-01
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P 031837Z MAR 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC PRIORITY 5271

INFO ALL EC CAPITALS

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USEEC

PARIS FOR OECD

DEPT PASS DOC/INVESTMENT POLICY DIVISION

E.O. 11652: N/A

TAGS: EINV, ECON, ELAB, ETRD, EEC

SUBJECT: IMPACT OF EC FINANCIAL INSTRUMENTS ON INTER-
NATIONAL INVESTMENT

REF: A) STATE 37873; B) BRUSSELS 2838; C) 77 EC-A-509;
D) EC-A-34

1. SUMMARY: THE CONVENTIONAL ANALYSIS USED TO IDENTIFY
NATIONAL MEASURES AFFECTING INTERNATIONAL PRIVATE DIRECT
INVESTMENT INCLUDING INCENTIVES, PERFORMANCE REQUIREMENTS,
AND LABOR AND EMPLOYMENT REQUIREMENTS IS NOT DIRECTLY
APPLICABLE TO EC PROGRAMS. THE EC HAS A NUMBER OF INSTRU-
MENTS WITH WHICH TO ASSIST ADJUSTMENTS (AND THUS
INVESTMENTS) IN THE INDUSTRIAL AND AGRICULTURAL SECTORS
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OF ITS MEMBER STATES. THEY ARE: THE EUROPEAN SOCIAL FUND,
THE REGIONAL DEVELOPMENT FUND, LOANS FROM THE EUROPEAN
INVESTMENT BANK (EIB), THE EUROPEAN AGRICULTURAL GUARANTEE
AND GUIDANCE FUND, LOANS UNDER THE EUROPEAN COAL AND STEEL
COMMUNITY TREATY (ARTICLES 54 AND 56), AND LOANS UNDER
THE EUROPEAN ATOMIC ENERGY COMMUNITY. MOST OF THESE PRO-
GRAMS ARE IN CONJUNCTION WITH NATIONAL SYSTEMS OF

STRUCTURAL ADJUSTMENT OR STATE AIDS. IN ADDITION, THE GENERAL POLICY OF THE EC COMMISSION IS TO LIMIT OR HARMONIZE STATE AIDS. END SUMMARY.

2. A BRIEF SUMMARY OF THE WORKING OF EACH PROGRAM WILL INDICATE THE TYPES OF INCENTIVES, PERFORMANCE REQUIREMENTS, AND LABOR AND EMPLOYMENT REQUIREMENTS, IF ANY, APPLIED BY THE EC.

A. THE EUROPEAN SOCIAL FUND (ESF) (SEE REF C)

THERE ARE TWO MAIN CATEGORIES OF ACTIVITIES CARRIED OUT UNDER THE FUND. ONE IS DESIGNED TO ASSIST IN THE RETRAINING OF PERSONS WHO ARE LEAVING AGRICULTURE, LEAVING THE TEXTILE INDUSTRY OR ACQUIRING NEW SKILLS IN THAT INDUSTRY, MIGRANT WORKERS, HANDICAPPED WORKERS, AND YOUNG PERSONS UNDER 25 WHO ARE UNEMPLOYED OR IN SEARCH OF FIRST-TIME EMPLOYMENT. THE OTHER IS DESIGNED TO GRANT FINANCIAL ASSISTANCE FOR RETRAINING SCHEMES IN FAVOR OF WORKERS WHO ARE THREATENED WITH UNEMPLOYMENT IN THE POORER REGIONS OF THE COMMUNITY AND WHO ARE AFFECTED BY TECHNICAL PROGRESS. THE COMMISSION CAN REIMBURSE 50 PERCENT OF THE COST OF RETRAINING PROGRAMS FINANCED BY PUBLIC AUTHORITIES. FOR THOSE CARRIED OUT BY PRIVATE BODIES, THE COMMISSION GRANT WILL EQUAL THAT MADE BY THE PUBLIC AUTHORITIES. THE SOCIAL FUND COMMITTEE, CONSISTING OF REPRESENTATIVES OF GOVERN-

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MENTS, TRADE UNIONS, AND EMPLOYERS, GIVES ITS OPINION ON APPLICATIONS AND THE COMMISSION DECIDES IN LIGHT OF THE COMMITTEE'S VIEWS.

B. THE EUROPEAN REGIONAL DEVELOPMENT FUND (SEE REF C)

THE FUND MAKES GRANTS TO HELP INDUSTRIAL AND SERVICE SECTOR INVESTMENTS WHICH CREATE OR SAFEGUARD EXISTING JOBS, FOR INFRASTRUCTURE INVESTMENTS (ROADS, WATER SUPPLY, INDUSTRIAL PARKS, ETC.) LINKED WITH THESE PRODUCTIVE INVESTMENTS, AND FOR INFRASTRUCTURE INVESTMENTS IN CERTAIN LESS FAVORED RURAL REGIONS. THE INVESTMENTS MUST BE LOCATED IN AREAS WHICH QUALIFY FOR NATIONAL REGIONAL AID AND BE SUPPORTED BY NATIONAL PUBLIC FUNDS. APPLICATIONS FOR GRANTS ARE SUBMITTED BY THE NATIONAL GOVERNMENTS. GRANTS ARE PAID TO THE NATIONAL AUTHORITIES. THE FUND CAN CONTRIBUTE UP TO 20 PERCENT OF THE TOTAL COST OF PRIVATE INVESTMENT BUT THIS MAY NOT BE MORE THAN 50 PERCENT OF THE REGIONAL AID ACCORDED TO THE PROJECT BY THE MEMBER STATE. REGARDING INFRASTRUCTURE INVESTMENT, THE FUND CAN CONTRIBUTE UP TO 30 PERCENT OF THE COST OF THE PROJECT.

COMMENT: BOTH PROGRAMS DESCRIBED ABOVE OPERATE IN CONJUNCTION WITH EXISTING NATIONAL PROGRAMS, AUGMENTING NATIONAL FUNDS, AND THEREFORE DO NOT HAVE ANY INDEPENDENT EFFECT ON INVESTMENT FLOWS.

C. THE EUROPEAN INVESTMENT BANK (SEE REF D)

THE BANK, WHICH OPERATES ON A NON-PROFIT MAKING BASIS, GRANT LOANS AND GIVES GUARANTEES TO FACILITATE THE FINANCING IN ALL SECTORS OF THE ECONOMY OF PROJECTS FOR DEVELOPING LESS DEVELOPED REGIONS, FOR THE MODERNIZATION OR CONVERSION OF UNDERTAKINGS, FOR THE DEVELOPMENT OF FRESH ACTIVITIES, AND OF PROJECTS OF COMMON INTEREST TO UNCLASSIFIED

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SEVERAL MEMBER STATES WHICH THEY ARE UNABLE TO FINANCE

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THEMSELVES. LOANS TO FINANCE SPECIFIC PROJECTS MAY BE MADE DIRECTLY TO PRIVATE OR PUBLIC ENTERPRISES, TO PUBLIC AUTHORITY, OR THROUGH A FINANCIAL INSTITUTION, REGARDLESS OF THE NATIONALITY OF THE BORROWER. THE BANK RARELY LENDS MORE THAN 50 PERCENT OF THE COST OF

THE FIXED ASSETS. IN PRACTICE MOST LOANS FOR PROJECTS WITHIN EC COUNTRIES ARE WITH EC ENTERPRISES. THE EIB IS A SELF-FINANCING INSTITUTION AND ITS LENDING GENERALLY REFLECTS MARKET TERMS. BECAUSE ITS CREDIT RATING IS HIGHER THAN MOST ENTERPRISES CAN GET FOR THEMSELVES, THE EIB MAY OFFER BETTER FINANCING TERMS, WHICH COULD INFLUENCE THE FLOW OF INVESTMENT.

COMMENT: THE EIB PROBABLY HAS SOME IMPACT ON INTERNATIONAL FLOW OF PRIVATE DIRECT INVESTMENT. SINCE PRIVATE RECIPIENTS ARE GENERALLY EC ENTERPRISES, THIS INFLUENCE WOULD PROBABLY PRIMARILY AFFECT INTRA-EC FLOWS.

D. THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND (SEE REF D)

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THIS FUND IS THE MECHANISM FOR THE FINANCING OF THE EC'S COMMON AGRICULTURAL PROGRAM. ITS STRUCTURAL POLICY EMBRACES THE FOLLOWING MEASURES:

-- NATIONALLY FINANCED PREMIUMS FOR CLOSING DOWN FARMS AND JOINT EC/MEMBER STATE FINANCED ANNUAL PAYMENTS TO PERSONS AGED 55 TO 65 WHO VOLUNTARILY CLOSE DOWN THEIR FARMS;

-- MEASURES FOR STIMULATING MODERNIZATION AND DEVELOPMENT OF EXISTING FARMS INCLUDING OPTIONS IN CASE OF PURCHASE OF VACANT ARABLE LAND AND INTEREST RATE SUBSIDIES FOR INVESTMENT, WITH DECREASING NATIONAL INCOME SUBSIDIES IN CERTAIN AREAS AS A TRANSITIONAL MEASURE;

-- MEASURES FOR INFORMATION AND VOCATIONAL TRAINING;

-- SPECIAL AID SCHEMES FOR MOUNTAIN AND HILL FARMING AREAS;

-- CAPITAL GRANTS FOR THE FINANCING OF INDIVIDUAL PROJECTS FOR STRUCTURAL IMPROVEMENT WITHIN THE AGRICULTURAL SECTOR.

COMMENT: SINCE MOST OF FUNDS ARE PAYMENTS TO FARMERS OR FARMER GROUPS, THE IMPACT, IF ANY, ON THE INTERNATIONAL FLOW OF DIRECT INVESTMENT IS PROBABLY VERY SLIGHT.

E. THE EUROPEAN COAL AND STEEL COMMUNITY (SEE REF D)

THE ECSC TREATY PERMITS THE EC COMMISSION TO FACILITATE FINANCING OF CONSTRUCTION, EXPANSION, OR MODERNIZATION OF

STEEL PLANTS. THIS CAN BE DONE BY GRANTING LOANS AT
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REDUCED RATES, GUARANTEEING LOANS FROM OTHER SOURCES, OR
GIVING FINANCIAL CONTRIBUTIONS FOR INVESTMENTS WHICH
CONTRIBUTE TO AN INCREASE OF PRODUCTION, LOWER PRODUCTION
COSTS, OR FACILITATE MARKETING (AS PROVIDED FOR UNDER
ARTICLE 54). THE COMMISSION CAN ALSO MAKE LOANS ON
FAVORABLE CONDITIONS FOR THE EXPANSION OR CREATION OF NEW
ACTIVITIES IN THE COAL MINING AND STEEL INDUSTRY AS WELL
AS IN OTHER INDUSTRIES IN REGIONS EXPERIENCING EMPLOYMENT
PROBLEMS RESULTING FROM CHANGES IN THE COAL AND STEEL
INDUSTRY. IT CAN PROVIDE FOR NON-REPAYABLE DIRECT AIDS
(TIDOVER ALLOWANCES, RESETTLEMENT ALLOWANCES, VOCATIONAL
TRAINING) FOR THE REDUNDANT COAL AND STEEL WORKERS IN
THESE REGIONS (AS PROVIDED FOR UNDER ARTICLE 56). IN
PRACTICE THE COMMISSION DOES CONSULT WITH THE COUNCIL
AND NATIONAL GOVERNMENTS CONCERNED BEFORE MAKING DECISIONS
ON GRANTS OR AIDS.

COMMENT: THIS PROGRAM HAS AN IMPACT ON INVESTMENT IN EC
COAL AND STEEL SECTORS, BUT INFLUENCE ON EXTRA-EC
INTERNATIONAL FLOWS WOULD PROBABLY BE SMALL.

F. EC COORDINATION OF STATE AIDS

THE EC COMMISSION ENFORCES ARTICLE 92 OF THE EEC TREATY
WHICH DEALS WITH SUBSIDIES OF MEMBER STATES TO THEIR
INDUSTRIES. THIS ARTICLE PROHIBITS STATES AIDS WHICH
DISTORT, OR THREATEN TO DISTORT COMPETITION, INsofar AS
THEY AFFECT TRADE BETWEEN MEMBER STATES. THIS SAME
ARTICLE ALSO PROVIDES A LIST OF POSSIBLE EXCEPTIONS
INCLUDING REGIONAL AIDS, AIDS TO INDUSTRIAL SECTORS,
AIDS TO PROJECTS OF COMMON EUROPEAN INTEREST, AND AIDS
TO REMEDY A SERIOUS DISTURBANCE IN A MEMBER STATE'S
ECONOMY. REGIONAL AND SECTORAL AID PROGRAMS BY THE
MEMBER STATES MUST BE SUBMITTED TO THE COMMISSION FOR
APPROVAL. THE COMMISSION ALSO ATTEMPTS TO HARMONIZE
EXISTING AIDS SO THAT THEY WILL NOT AFFECT THE COMPETITIVE
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POSITION OF INDIVIDUAL MEMBER STATES.

COMMENT: IN THE CASE OF STATE AIDS ENCOURAGING INTRA-
OR INTERNATIONAL INVESTMENT THE COMMISSION'S ACTIONS
LIMIT THE INCENTIVES FOR INVESTMENT WHERE THEY DISTORT
OR THREATEN TO DISTORT COMPETITION AMONG THE EC-9.

G. THE EUROPEAN ATOMIC ENERGY COMMUNITY (EURATOM)

EURATOM HAS A LOAN PROGRAM WHICH IS DESIGNED TO FACILITATE
FINANCING OF INVESTMENT PROJECTS RELATING TO THE
INDUSTRIAL PRODUCTION OF ELECTRICITY IN NUCLEAR POWER
STATIONS AND TO FUEL CYCLE INSTALLATIONS. THESE LOANS
ARE AVAILABLE, AT ABOUT MARKET TERMS, TO PUBLIC AND
PRIVATE ENTERPRISES OPERATING IN THIS FIELD.

COMMENT: SINCE THESE FACILITIES ARE OWNED AND OPERATED
BY EC PUBLIC OR PRIVATE ENTERPRISES, THERE WOULD NOT
BE ANY DIRECT INFLUENCE ON INTERNATIONAL INVESTMENT.

3. IN BRIEF THE EC COMMISSION, IN ITS OWN WAY, DOES
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PROVIDE A CERTAIN AMOUNT OF "DISCIPLINE AND RESTRAINT
OVER ITS MEMBER STATE GOVERNMENTS' ACTIONS WHICH
AFFECT INVESTMENT DECISIONS." (SEE REF A) ITS
"DISCIPLINE" IS REFLECTED BY THE GUIDELINES AND REQUIRE-

MENTS OF CERTAIN EC PROGRAMS WHICH, IN TURN, AFFECT
INVESTMENT FLOWS. ITS "RESTRAINT" TAKES THE FORM OF
LIMITING STATE AIDS WHICH RESTRICT COMPETITION OR HINDER
THE FREE FLOW OF CAPITAL WITHIN THE COMMON MARKET.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REGIONAL ORGANIZATIONS, FINANCIAL PLANS, INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRUSSE04250
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780098-0325
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803111/aaaadqns.tel
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Litigation History:
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Office: ACTION COME
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 STATE 37873, 78 BRUSSELS 2838
Retention: 0
Review Action: RELEASED, APPROVED
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Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3133513
Secure: OPEN
Status: NATIVE
Subject: IMPACT OF EC FINANCIAL INSTRUMENTS ON INTER- NATIONAL INVESTMENT
TAGS: EINV, ECON, ELAB, ETRD, EEC
To: STATE USOECD
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/50bebab9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014